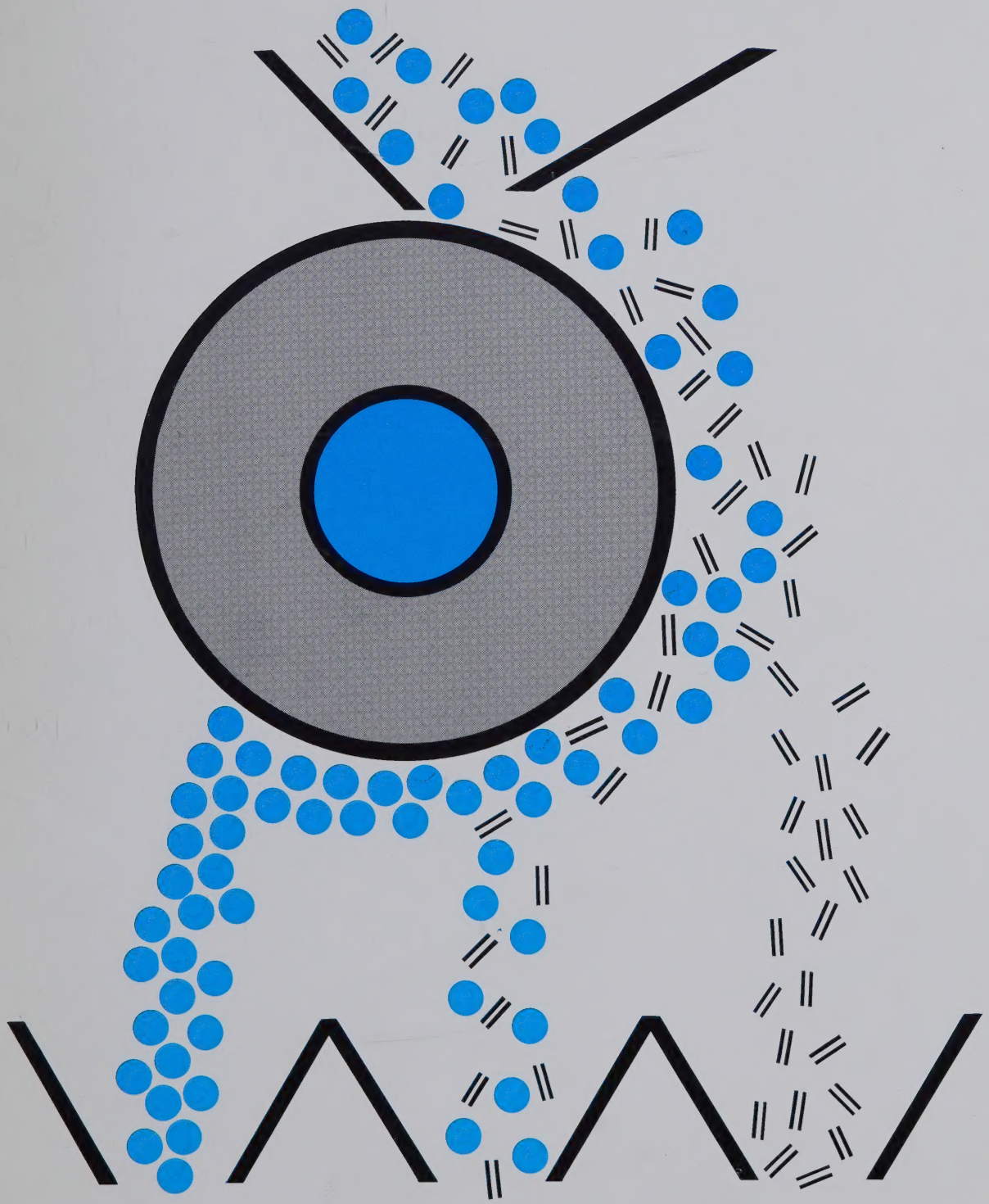
Magnetics International Ltd. ANNUAL REPORT 1974

AR07



Directors and Officers

R. P. Mills, Chairman and Director
P. N. Carter, President, Chief Executive Officer and Director
W. J. D. Stone, P. Eng., Director
E. J. D'Iorio, Jr., Secretary-Treasurer
H. J. Davidson, Director
H. J. Mockler, Director
J. H. Morgan, Ph.D., Director
J. D. Streit, Director
B. H. Shapiro, Director
R. J. Opekar, Director

Directors of subsidiaries
(who are not directors of Magnetics International Ltd.)
J. W. Winthrop, Director, Ferrox Iron (New York) Ltd.
E. J. D'Iorio, Jr., Director, Ferrox Iron (New York) Ltd., Ferrox Iron Ltd., Ferro-Magnetics Ltd., Ferrox Iron Sales Ltd., Con Quest Exploration Ltd.
J. L. C. Jenner, Director, Con Quest Exploration Ltd.
J. A. Bartnik, Director, Ferro-Magnetics Ltd.
J. D. Nye, Director, Ferrox Iron Ltd., Ferrox Iron (New York) Ltd., Ferrox Iron Sales Ltd.

Subsidiaries
Ferrox Iron Ltd. (N.P.L.)
Ferrox Iron (New York) Ltd.
Ferrox Iron Sales Ltd.
Ferro-Magnetics Ltd. (N.P.L.)
Magsep Ltd.
Con Quest Exploration Ltd. (N.P.L.)
Carpco, Inc.
Carpco Malaysia S.B.
Carpco Australasia Pty Ltd.
Carpco Hong Kong Ltd.
Resource Technology Associates
Magint N.V.

Wholly-owned subsidiaries of Con Quest
Brea Tin Limited
Tolgarrick Tin Limited

Head Office
Suite 401, 621 Craig St. West
Montreal, Quebec H3C 1A2
Telex 05-25686
Telephone (514) 878-3978

United Kingdom address
30 Church Street, Camborne,
Cornwall, England
Telephone Camborne 2018

United States address
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Jacksonville, Florida 32206
Telex 5-6367
Telephone (904) 353-3681

Far East address
P.O. Box 299
Laboratory Location
No. 22 Horley Street, Ipoh, Perak, Malaysia

Bankers
Canadian Imperial Bank of Commerce

Transfer Agents
The Canada Permanent Trust Company
Montreal and Toronto

Auditors
Touche Ross & Co. and
Leebosh Dobrin April & Curtis

Shares listed
Montreal Stock Exchange
Toronto Stock Exchange

The cover symbolizes the basic principles of separation in Carpco's High Tension Separator.

Directors' Report to the Shareholders

As recently reported in our January Letter to Shareholders, orders for 21 large separators were finalized in early 1975. These machines will be delivered over the next 14 months, and will add more than $1.3 million to your company's cash flow during this period. This income will substantially improve the working capital position reflected in this report.

The 1974 sales from continuing operations were $1.7 million up from $0.3 million in 1973. The loss from continuing operations in 1974 was $499,290 compared to a loss of $262,011 in 1973. Non-recurring losses of $197,525 in 1974 reflect the closing of our Ferrox Divisions and Brea Tin Operation.

Our operating loss was principally due to a lack of Jones Separator sales and the shortage of raw materials for the Ferrox operations.

Jones Wet Magnetic Separator

Negotiations are currently underway for the sale of an additional 12 large Jones Separators, which will be used in the production of superconcentrate and in the recovery of iron ore tailings.

An established trend in the use of iron pellet feed for the production of steel presently exists. The manufacturing process of these pellets requires a high purity iron ore commonly referred to as "superconcentrate". The primary method of producing "superconcentrate" from Hematite employs the Jones wet magnetic separator as a necessary part of the circuit. Currently the demand for pellet feeds exceeds available supply, therefore requiring new production facilities.

Carpco

Carpco Malaysia's operations generated a substantial after-tax profit in 1974. Sales of ore separation equipment to the tin industry in South East Asia continue to be strong.

In 1974, Carpco Malaysia expanded its marketing area to Australia and India where it is generating sales in the beach sand industry. As we anticipate a substantial increase in Carpco's sales territory, it may become necessary to increase the management and manufacturing base to handle these increased sales.

Carpco Florida's booked orders in 1974 were significantly higher than 1973 but less than our established goals. The loss experienced by this division resulted from target sales not being met.

During 1974, Management spent much time clearly defining this division's strengths and weaknesses. As a result, several important changes were implemented.

Ferrox

Your Directors are disappointed that adverse economic conditions forced the closing of the ferrite operations. Many loyal employees had put in a great deal of time and effort to try and make these operations successful.

In our Directors' letter in 1974, you were apprized of the losses occurring in the ferrite operations due to the severe shortages of barium carbonate. Unfortunately after these shortages were relieved and profitable operations were attained, the drop in automotive and television sales drastically reduced the demand for ferrite powders. The company's weakened cash position resulting from the barium carbonate shortage could not support the operations at these dramatically reduced sales levels. Your Directors could not foresee a quick recovery of the general economy, and before the cash position of Magnetics was worsened, they decided to close the ferrite operations.

During 1974, we actively pursued the sale of the ferrite operations. However in view of the deepening recession no serious buyers were found.

In the opinion of your Directors, the Bank loans of the ferrite division, guaranteed by Magnetics International, are adequately covered by the Division's assets.

Con Quest

In November 1974, the shareholders of Con Quest were advised that Brea Tin was suspending operations at its tin processing plant in Cornwall, England. This decision was caused by the rapidly escalating cost of supplies and labour coinciding with a severe decline in the market price of tin. The physical assets of the company have since been sold and the proceeds will be used to repay the company's trade creditors.

As of this time, the compensation claim submitted for the expropriation of Tolgarrick Tin, has not been settled.

Outlook

The closing of the ferrite and the tin processing operations were difficult decisions for your Directors. However, the removal of these severe cash drains coupled with the pending income from separator sales will place your company in a far stronger financial position in 1975 and future years. In addition, greater time may now be devoted to realizing the potential that exists for the Carpco operations and the Jones Separator projects.

The current economic recession should not have an adverse effect on your company's sales and earnings during 1975. The projected large Jones Separator sales are for projects with start-up dates in 1976 and 1977. Orders for these separators must be placed in 1975 if the start-up dates are to be met.

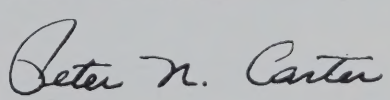
The general economy in the area served by Carpco Malaysia is still quite strong so that sales to the mineral industry should continue to grow during 1975.

Carpco Florida serves the mineral industry and the environmental industries of municipal waste and industrial trash. Mineral industry sales should remain strong for the same lead time reasons as for the Jones Separator sales.

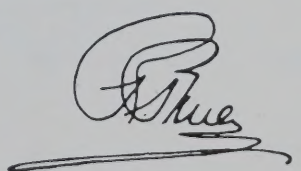
Carpco Florida is currently bidding on equipment for eight major mineral separation plants, totaling more than $5-million of Carpco equipment, that may be consummated in the latter part of 1975 or early 1976. The division's sales to the environmental industries may be reduced in the first and second quarter of 1975 as these customers might possibly forego capital expenditures for new equipment until the economy recovers.

The Directors would like to take this opportunity to thank the employees of Magnetics and its divisions for the efforts made during the very trying times of 1974.

Your Directors regret to announce that Mr. W. J. D. Stone resigned from the company at the end of 1974 to establish a consulting business. Mr. Stone will be available to Magnetics on a consulting basis in future years.



Peter N. Carter
President



R. P. Mills
Chairman

Operations

JONES SEPARATOR

The major part of the orders for 21 large Jones Separators recently received will be used by the iron ore industry for the production of "superconcentrate" or iron ores low in silica content. These low silica iron ores are the basic raw material for the direct reduction processes used to make the metallized pellet feed for electric arc steel-making furnaces.

The Third International Symposium on the Iron & Steel Industry, held at Brasilia in Brazil, in October of 1973, included a review of the trend in areas such as the Arab countries towards the use of electric arc furnaces for steel production rather than the conventional blast furnace and BOF route. This trend is due, in part, to the relatively small reserves of coking coal in these areas and to the large reserves of natural gas suitable for the direct reduction of superconcentrates to metallized pellets.

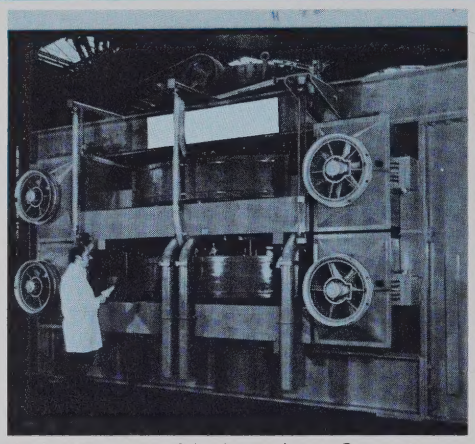
However, the trend towards electric arc furnaces for steel-making is not limited to developing countries. The industrialized areas of North America and Europe are participating in the trend because of the relatively lower capital costs of electric arc furnace steel-making as compared to the blast furnace and BOF techniques.

It is interesting to note that in seminars at this symposium, wet high intensity magnetic separation was mentioned as the accepted technique for producing superconcentrates.

Projections of demand for superconcentrate for direct reduction made at this seminar indicated 10 - 12 million tons annually in 1975 increasing to 60 million tons annually in 1980 and up to 115 million tons in 1985.

Another survey of direct reduction plants published in late 1974 showed a current capacity of plants in operation or on order of 19 million tons per year and an additional capacity of 28 million tons per year in the advanced study stage.

These statistics are significant to Magnetics International Ltd. for there is a general "rule of thumb" that one large Jones Separator is required for each million tons of superconcentrate used in the direct reduction process for the formation of metallized pellets.



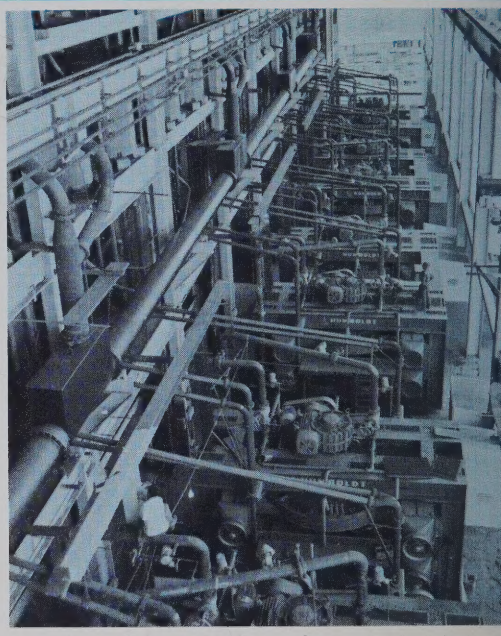
A close up view of the large Jones Separator.

Negotiations are currently underway with clients who will require 12 large separators in their plants for the production of superconcentrates. Full scale test programs have been completed recently at Ferro-Magnetics that indicate potential orders for 15 additional separators in 1976 for use in the iron ore industry.

Growth in the application of the Jones Separator is not limited to the iron ore industry alone. Development work over a number of years at Magnetics' laboratories and published technical papers indicate an important place for the Jones Separator in the treatment of uranium ore. The high price of oil has created more than a doubling of planned uranium projects in the last twelve months.

Greater diversification in the application of the Jones Separator is also indicated by the range of ores included in the test programs carried out over the past two years at the laboratories in Ferro-Magnetics.

The length of time to develop and gain industry acceptance for a new concept in mineral beneficiation is typically long. The Jones Separator has received such acceptance and the sale of these machines should continue at a high level.

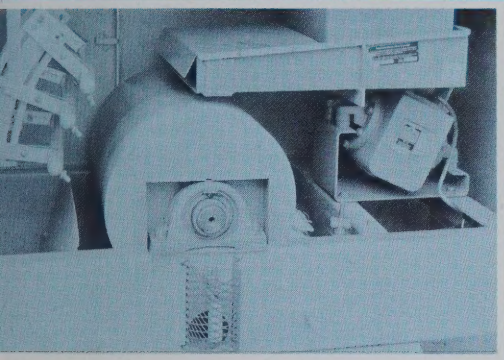


The above illustrates a Jones Separator installation in Brazil.

CARPCO

During 1974 major emphasis was placed on an evaluation of Carpco's Florida and Malaysia operations, products, and markets to establish a direction toward increased profits.

A review of Carpco's product line indicated that it was too broad for the limited development and marketing manpower available. Carpco's long established reputation and technology was established in the areas of dry mineral separation by magnetic and high tension techniques. In recent years the company had developed products for wet magnetic separation and for wet gravity separation. Magnetics International's success with the Jones Wet Magnetic Separator had justified Carpco's development efforts in the field. Other companies' successes with products for wet gravity separation indicated a reasonable market potential in that area. However, time and money spent in these new areas was straining Carpco's limited resources that could be better directed to its basic expertise in dry separation. A decision was made in late 1974 to halt product development and marketing efforts in the areas of wet magnetic and wet gravity separation systems and to place more emphasis in areas of dry separation application.



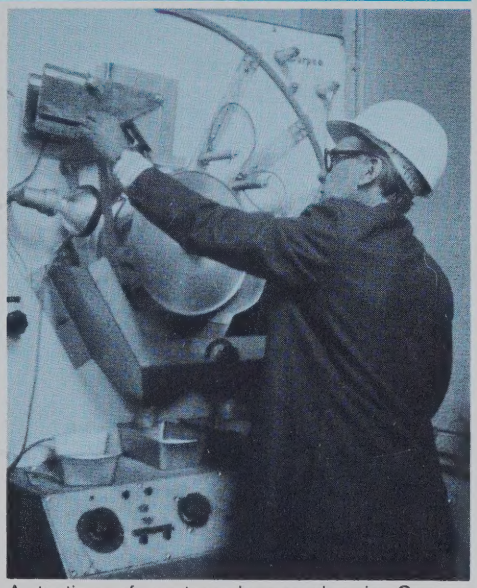
nside view of Carpco Series B high tension separator.

Simultaneously, a program was established to carefully review all of Carpco's dry separation equipment line and, if necessary, redesign it to improve its performance, cost, and marketability. This type of review had not been carried out for approximately five years and it was felt Carpco's dominance in the dry separation field might diminish without periodic pulse-taking. This program started recently and will continue for a number of months.

A review of Carpco's markets showed that its separation equipment has application in the dry separation section of a variety of mineral separation plants. Its primary plant sales in prior years had been to the beach sand industry for the recovery of ilmenite, and to the tin industry for the recovery of secondary minerals. In recent years, it has made sales of dry separation equipment for two large iron ore deposits. A trend towards dry separation in the phosphate industry of southeastern United States indicates a growing potential for Carpco's dry separation equipment in this area. Smaller plants and individual groups of equipment have been sold for the solution of many other mineral separation problems in prior years.

These large mineral separation plants represented sales of $1 million to $3 million of Carpco's equipment. However, they presented wide fluctuations in annual sales during the years in which no major plant was being constructed.

A means of overcoming the problem became apparent when a review was made of Carpco's extensive development work in the non-mineral areas of food, industrial trash, and municipal garbage. Management feels strongly that Carpco's excellent reputation in these growing environmental markets offers an exciting and profitable diversification of the application of its dry separation equipment.



A testing of customer's samples in Carpco Florida's Laboratory.

Growing interest in the area of municipal waste or garbage stems from three primary factors:

1. Cost of disposal
2. A search for alternate fuel sources
3. The increasing value of the aluminum products contained in this waste.

Carpco's dry separation equipment is currently in use for the recovery of valuable aluminum products from waste. The income derived from the recovery of this metal reduces the overall cost of garbage disposal and helps to justify the capital expenditures for plants designed to use garbage as a fuel source. As the cost for electricity used in the manufacture of raw aluminum soars, the demand by aluminum producers for techniques to recover scrap aluminum will accelerate.

Industrial trash covers a wide spectrum of separation problems. Carpco recently installed its equipment in a plant designed to separate copper wire from its P.V.C. insulation. Clean copper has always had a good market value. However, the dramatic increase in the price of oil used to make P.V.C. insulation has been the prime factor in creating a demand for techniques to recover this plastic insulation.

As countries become more and more aware of their diminishing natural resources, Carpco's dry separation equipment will be used to recycle these natural resources. It will be used to recycle these plastics and papers. The separation of the products of coal burning, the separation of the products of scrap automobile recycling add to the growing list of separation programs being presented to Carpco's laboratories.

Carpco's equipment was installed in 1974 in food processing plants to remove contaminants from food products. These initial installations indicate a substantial potential for dry separation equipment in agricultural and processed food industries.

These various non-mineral markets should represent 10 - 15% of Carpco Florida's sales in 1975 and the percentage will grow in future years. However, management will not diminish its efforts to maintain Carpco's world wide market position in the mineral field. As indicated in the Directors' report, Carpco is currently bidding on dry separation equipment for eight major mineral separation plants and the emphasis on minerals will continue.

The review of Carpco's products and markets indicated a need to add technical strength to the company. As indicated in the Directors' report, new management was brought into Carpco and changes within the organization were made.

In prior years Carpco Malaysia's small management staff has done an excellent job of serving its South East Asian markets with Carpco equipment manufactured by sub-contractors in Malaysia. Its managing director, Mr. Maniam Eliatamby, has handled administration, engineering, sub-contracting, as well as sales. A sales manager was added to his staff in late 1974 to partially relieve him of his sales activities. A continuing study will be made in 1975 to determine areas of manufacturing and administration requiring additional help to cope with growing sales in that area.

Consolidated Balance Sheet

	December 31 1974	1973 (Restated)
Assets		
Current assets:		
Cash	**$ 86,022**	$ 75,228
Restricted bank deposit (Note 8)	**50,000**	50,000
Accounts receivable	**515,427**	332,141
Inventories (Note 3)	**486,452**	393,671
	1,137,901	851,040
Investment in shares of, and advances to:		
Mining companies	**3,174**	33,174
Subsidiary companies (Notes 1 & 4)	**—**	418,686
Receivables not currently due	**16,676**	17,490
Fixed assets (Note 5)	**154,638**	158,259
Patent rights (Note 6)	**332,000**	375,000
	$1,644,389	$1,853,649
Liabilities and Deficiency in Assets		
Current liabilities:		
Bank loans (Note 7)	**$ 430,547**	$ 163,226
Notes payable to others	**—**	20,362
Accounts payable and accrued liabilities	**984,015**	327,347
Income taxes payable	**13,931**	90,641
Indebtedness payable within one year (Note 8)	**108,066**	97,500
	1,536,559	699,076
Indebtedness not maturing within 1 year (Note 8)	**485,637**	545,347
Due to subsidiaries not consolidated	**78,432**	30,522
Deficiency in assets:		
Capital stock (Notes 2 & 9) — Authorized 4,000,000 shares without par value Issued and fully paid — 3,603,555 shares	**1,327,641**	1,327,641
Deficit	**(1,783,880)**	(748,937)
	(456,239)	578,704
	$1,644,389	$1,853,649

Signed on behalf of the Board:
Peter N. Carter, Director
R. P. Mills, Director

Consolidated Statement of Income

	Year ended December 31 1974	1973 (Restated)
Sales and other operating revenues	**$1,728,409**	$ 333,075
Other income	**20,793**	7,831
	1,749,202	340,906
Cost of sales including royalties	**1,209,448**	176,690
Depreciation and amortization	**100,802**	41,096
Selling and administrative	**866,397**	378,698
Interest on indebtedness not maturing within one year	**20,287**	2,185
Other interest	**51,558**	4,248
	2,248,492	602,917
Loss from continuing operations	**499,290**	262,011
Share of losses from non-consolidated subsidiary companies (Note 1)	**281,236**	425,458
Loss before income taxes and extraordinary item	**780,526**	687,469
Provision for income taxes (Note 10)	**56,892**	18,338
Loss before extraordinary item	**837,418**	705,807
Extraordinary item: Write-down of investment and advances on discontinuation of operations of subsidiary companies (Note 1)	**197,525**	—
Net loss for the year	**$1,034,943**	$ 705,807
Per share (Note 11):		
Net loss before extraordinary item	**$ 0.23**	$ 0.22
Net loss for the year	**$ 0.29**	$ 0.22

Consolidated Statement of Deficit

	Year ended December 31 1974	1973 (Restated)
Deficit, beginning of year	**$ 748,937**	$ 43,130
Net loss for the year	**1,034,943**	705,807
Deficit, end of year	**$1,783,880**	$ 748,937

Consolidated Statement of Changes in Financial Position

	Year ended December 31 1974	1973 (Restated)
Application of funds:		
Loss before extraordinary item	**$ 837,418**	$ 705,807
Charges to income not affecting working capital—		
Depreciation and amortization	**100,802**	41,096
Write-downs of investments in shares of, and advances to mining companies	**30,000**	—
Share of losses from non-consolidated subsidiary companies	**281,236**	425,458
	425,380	239,253
Investment in subsidiary companies (Note 2)	**—**	297,000
Investment in patent rights	**—**	190,000
Investment in fixed assets (Net)	**54,181**	(2,237)
Increase in advances to unconsolidated subsidiaries (Net)	**12,165**	—
Decrease in indebtedness not maturing within one year	**59,710**	—
Other	**(814)**	856
	550,622	724,872
Source of funds:		
Decrease in advances to unconsolidated subsidiaries (Net)	**—**	120,720
Issue of capital stock for purchase of subsidiary companies (Note 2)	**—**	297,000
Increase in indebtedness not maturing within one year	**—**	292,281
	—	710,001
Increase (decrease) in working capital	**(550,622)**	(14,871)
Working capital as at November 28, 1973 of subsidiary companies acquired	**—**	192,665
Working capital, beginning of year	**151,964**	(25,830)
Working capital (deficiency) end of year	**$ (398,658)**	$ 151,964

Auditors' Report

To the Shareholders of
Magnetics International Ltd.

We have examined the consolidated balance sheet of Magnetics International Ltd. and subsidiary companies as at December 31, 1974 and the consolidated statements of income, deficit and changes in financial position and have obtained all the information and explanations we have required. Our examination of the financial statements of Magnetics International Ltd. and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, subject to the settlement of the contingent liabilities described in Note 13, and according to the best of our information and the explanations given to us and as shown by the books of the companies examined by us and the audited statements furnished to us, these consolidated financial statements present fairly the financial position of Magnetics International Ltd. and subsidiary companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied, except for the change in accounting for the investment in certain subsidiaries as described in Note 1, on a basis consistent with that of the preceding year.

The financial statements of the prior year were examined by other public accountants.

Leebosh Dobrin April & Curtis
Chartered Accountants

Touche Ross & Co.
Chartered Accountants

Montreal, Quebec
March 24, 1975.

Notes to Consolidated Financial Statements December 31, 1974

1. Significant Accounting Principles

The consolidated financial statements include the accounts of Magnetics International Ltd. and all of its subsidiary companies with the exception of the Ferrox Group of Companies and Con Quest Exploration Ltd.

These latter companies have ceased commercial operations in 1974 or early 1975. It is therefore no longer appropriate to include their accounts in the consolidated financial statements. The company has adopted the practice of recording its investments in these subsidiaries at their equity value and of writing down its investments in and advances to subsidiaries to their estimated realizable value. The comparative figures for 1973 have been restated to reflect this change in accounting for these investments.

Accounts other than Canadian dollar accounts included in the consolidated balance sheet have been translated into Canadian dollars at rates of exchange current at year-end except that investments, fixed assets, patent rights, and accumulated depreciation and amortization are at rates prevailing at dates of acquisition and long term debt at rates prevailing when incurred. Accounts included in the consolidated statement of income except depreciation and amortization, are translated at average rates of exchange prevailing during the year.

The income under the licencing agreement for the sale of Jones Separators is recognized when received; all other income is recognized on the accrual basis.

Inventory is valued at the lower of cost (first in/first out method) and net realizable value.

Fixed assets are valued at cost, and depreciation is provided on a straight line basis over the estimated useful lives of the assets, which is approximately five years.

Patent rights are recorded at cost and are being amortized over their remaining useful lives, which vary from seven to nine years.

2. Acquisition of Subsidiary Companies

As at November 28, 1973, the company acquired all of the outstanding shares of Carpco Inc., Carpco Malaysia Sendirian Berhad, Carpco Australasia Pty. Ltd., Carpco Hong Kong Ltd., and Resource Technology Associates, Inc. in exchange for 450,000 shares of Magnetics International Ltd. capital stock with a quoted market value of $297,000. The company has guaranteed that the 450,000 shares will achieve a market value of not less than $600,000 during a consecutive twelve month period between January 1, 1975 and June 30, 1976. The market value is to be calculated by using the arithmetical average of the daily closing prices of the shares of Magnetics International Ltd. on the Toronto Stock Exchange for such twelve month period. If the market value of the shares, as previously set forth, does not achieve $600,000, the company has the option to pay the difference by issuance of additional shares and/or payment of cash.

As at January 1, 1975, the aggregate market value of the Magnetics International Ltd. shares issued for the purchase of the Carpco subsidiaries was $121,500.

3. Inventories

	1974	1973
Raw Materials	**$262,480**	$190,610
Work in process	**189,880**	113,427
Finished goods	**34,092**	89,634
	$486,452	$393,671

4. Investment in Shares of, and Advances to, Unconsolidated Subsidiary Companies, at Equity

	1974	1973
Investment in shares, at equity value	**$ —**	$ —
Advances, at net realizable value	**197,525**	418,686
	197,525	418,686
Write-down of investments and advances on discontinuation of operations	**197,525**	—
	$ —	$418,686

5. Fixed assets

	1974	1973
Fixed assets, at cost:		
Machinery, equipment and fixtures	**$303,894**	$254,471
Less: Accumulated depreciation	**149,256**	96,212
	$154,638	$158,259

6. Patent rights

	1974	1973
Patent rights, at cost	**$490,000**	$490,000
Less: Accumulated amortization	**158,000**	115,000
	$332,000	$375,000

7. Bank Loans

Bank loans totalling $430,547 are secured by accounts receivable and by machinery and equipment of Carpco Inc.

8. Indebtedness not maturing within one year

	1974	1973
Magnetics International Ltd.—		
Owing to Director on purchase of patents, payable in annual instalments of $15,000 until 1988	**$222,250**	$232,500
Carpco, Inc.—		
Bank loans, interest payable at New York prime commercial rate plus 2%, secured by machinery and equipment and accounts receivable, repayable in equal monthly instalments of $2,500 commencing February 1, 1975. Endorsed by Magnetics International Ltd.	**155,803**	150,000
Magint N.V.—		
6 1/2% promissory note, secured by restricted bank deposit and by a lien on certain patents and trademarks and on machinery and equipment of Carpco, Inc. (subject to the prior claim of the bank) payable U.S. $15,000 on January 1, 1977. Endorsed by Magnetics International Ltd.	**15,000**	40,000
6 1/2% promissory note, secured by restricted bank deposit and by a lien on certain patents and trademarks and on machinery and equipment of Carpco Inc. (subject to the prior claim of the bank) payable in semi-annual instalments of U.S. $25,000 commencing January 1, 1974. Endorsed by Magnetics International Ltd.	**100,000**	150,000
Other (Primarily foreign income taxes not payable within one year.)	**100,650**	70,347
	593,703	642,847
Less: Indebtedness payable within one year	**108,066**	97,500
	$485,637	$545,347

9. Capital stock options

36,250 shares (1973 — 54,250 shares) have been set aside to cover options granted to certain officers and senior personnel. These options are exercisable at various dates to 1978 predominantly at $1 per share.

10. Income taxes

As at December 31, 1974, the balance of losses carried forward for tax purposes was approximately $874,000 and, in addition, depreciation and amortization booked but not claimed for tax purposes amounted to approximately $135,000. These amounts aggregating approximately $1,009,000 are available to reduce taxable income in future years. The income tax reflected in the income statement represents the tax payable on the profits earned by a subsidiary company.

11. Earnings per share

Earnings per share have been calculated on the average number of shares outstanding during the year.

12. Remuneration of directors

Total remuneration received by directors amounted to $97,600 ($95,160 in 1973) including salaries totalling $82,000 ($79,560 in 1973) received by senior officers who are also directors.

13. Contingent liabilities

Magnetics International Ltd. has guaranteed certain indebtedness of the Ferrox Group of Companies in the amount of $224,000. In the event that the liquidation of the assets of the Ferrox Group of Companies is not sufficient to cover the amount of this indebtedness, then Magnetics International Ltd. will be called upon to pay the deficiency. It is management's opinion that any demand under the guarantee will not be significant.

The company has guaranteed repayment of an $82,995 government loan to an associated company which is only repayable if the project or process resulting from the specific development project covered by the loan is sold or put into commercial use.

A claim for approximately $140,000 has been lodged against the company. Management is of the opinion that the claim is unfounded.

14. Leases

A subsidiary company has an outstanding lease agreement on its plant aggregating $201,400, payable in monthly instalments of $2,650 to April 1981.

15. Subsequent events

Magnetics' licencee has finalized orders for twenty-one large Jones Separators. Since Magnetics recognises its income from Separator sales on a cash basis, no amounts have been taken into income as at December 31, 1974. The income to be derived from the sale of these machines will be approximately $537,000 in 1975 and $804,000 in early 1976.